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What you need to know about how Brexit might affect housing, housing demand and immigration

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Britain is due to leave the European Union next March. What will be the impact on housebuilding, housing demand, immigration and other housing-related issues? Here are the main points that you need to know. Our 2016 [what you need to know on Brexit](#) focused on immigration. This one takes a wider view.

What are the key stages in the timetable for leaving the EU?

Few things are yet known for certain except the date for leaving the EU (29 March 2019) and the transition period expected to follow this and to end on 31 December 2020 (but may last longer). During the transition, details of the UK's long-term relationship with the EU will be resolved. But it may not be long enough. The [Institute of Government](#) says that the government 'will soon have to make a choice: a messy Brexit in December 2020 or buying more time to do the job properly'.

While the main European Union (Withdrawal) Act 2018 has passed through parliament, much further legislation has still to be introduced, including an important trade bill. A proposal for Britain's trade relationship with the EU is the key feature of the government's July white paper, [The Future Relationship between the European Union and the United Kingdom](#), but this has yet to be agreed with the EU27 (the remaining EU countries). On immigration, progress has been made on the status of EU nationals living in or coming to the UK, but there are important details yet to be resolved. Only a few key principles of a planned, post-Brexit immigration policy have yet been decided.

In Northern Ireland, the big outstanding issue is the border with the Republic and the implications for the Belfast/Good Friday Agreement, although all sides have agreed that the solution will not involve a 'hard' border and this is confirmed by the European Union (Withdrawal) Act.

Scotland, Wales and potentially Northern Ireland will also be affected by the further devolution of powers set out in the Act, which Scotland (but not Wales) opposed as insufficient. Scotland was, for example, considering asking for [devolved powers over immigration](#).

Negotiations will now proceed 'at pace' in order to reach agreement with the EU27 by the Autumn. According to the white paper, this means "finalising both the Withdrawal Agreement and the framework for the future relationship (the 'Future Framework')."

How does Brexit affect the economy, public services and housing?

How does Brexit affect the economy?

Because so much is still undecided, it is impossible to say with any certainty what the economic effects of Brexit will be, but the indications are pessimistic. An official cross-Whitehall briefing [published in March](#) suggested that there could be as much as 8% less economic growth if the government pursues a 'hard' Brexit, although with a lower reduction (2%) if the UK were to pursue the 'softest' Brexit by having a close trading arrangement with the EU, like Norway's. A middle route, a free trade agreement with the EU, would reduce growth by 5%. All parts of the UK would be affected, with the worst effects being in Northern Ireland, the North East and the West Midlands. A detailed examination of the effects of reduced trade with the EU [shows](#) that places like Flintshire, Sunderland, Telford, Derbyshire and Luton could suffer economically from Brexit.

How does Brexit affect public services?

So far, although the [Scottish](#) and [Welsh](#) governments, the [Mayor of London](#), the core cities and some of the bigger combined authorities have commissioned work on the impact of Brexit, most of local government is still preoccupied with managing budget cuts and



coping with changes such as the retention of business rates. Yet as this briefing shows, Brexit brings many challenges that councils will soon have to face.

The official verdict from the government's Office for Budget Responsibility is still that 'the impact of Brexit on the public finances is complex and uncertain'. Yet on the first anniversary of the signing of the notification to leave the EU, the prime minister promised a 'Brexit dividend' for public services, with more money to spend on the NHS and schools. She referred to this again when announcing extra funding for the NHS in June 2018. The problem is that while payments to the EU will fall after Brexit, tax revenues are likely to fall even more. That is the government's official position, because it has accepted the OBR's forecast that the public finances could lose £15 billion a year. It is clear that even if this is wrong and there is a 'Brexit dividend,' it will be a small one.

The middle scenario in the cross-Whitehall briefing mentioned above would lead to a 3% cut in national income. At present, the Chancellor is allowing some temporary increases in public spending to take place, but with a further freeze after 2022/23. Capital investment will increase slightly over this period, but spending on day-to-day services will continue to fall. These budgeted figures will presumably have to be revised further if more pessimistic Brexit economic forecasts are proved correct. For example, the University of



Cambridge's Centre for Business Research [has questioned the accuracy](#) of Treasury forecasts and suggested there will be further cuts in income for public services.

How does Brexit affect central government?

Whitehall is grappling with the 'biggest and most complex task in its peacetime history'. There are at least two big issues here apart from the Brexit negotiations themselves. One is the preparation needed for implementing Brexit: the government has been criticised by the [Institute for Government](#) for not putting enough resources into this. For example, the workload in clarifying the status of 3.5 million EU nationals living in the UK is huge. All of the issues covered in this briefing require civil service time to resolve them.

The second is that because Brexit is consuming huge amounts of government time it is slowing down or preventing work on other important issues. In housing, for example, much of the white paper published in January last year has still not been implemented.

How does Brexit affect the housing market?

Brexit is only one factor in the state of the housing market, along with factors such as interest rates, unemployment and whether real incomes are rising. As the [UK Housing Review 2018](#) pointed out, the UK is now one of the poorer-performing advanced economies. Interest rates are rising slightly, unemployment remains low, but real earnings are falling and inflation is expected to fall too. The Review suggests house prices will rise by just 1% in 2018 and 2% in 2019. The number of sales will stay around 1.2 million annually, better than the post-slump years but well below levels in the early 2000s. However, the market remains sensitive, for example to job cuts or fear of job cuts, post-Brexit. There are already [reports](#) of Brexit putting a ceiling on London house prices.

If Brexit leads to lower migration, could this also affect house prices? The government has published rather [outdated research](#) which purports to show that migration drives up prices. However, in practice the factors determining price rises and falls are much



more complex: CIH has shown that there is [no clear link](#) between migration levels and prices; the general state of the economy has a much stronger influence.

So far, Brexit appears to have had little effect on housing output. Across the UK, housing starts were 9% higher in 2017 than in 2016, although starts have fallen continuously since the first quarter of 2017. In line with forecasts of the number of sales, it seems likely that private housebuilding will flatline in the near future with any growth coming from the social sector.

How does Brexit affect social housing investment?

Housing and local government spending in Scotland, Wales and Northern Ireland is affected by overall decisions on spending made in Whitehall, but with detailed decisions made by the devolved administrations (currently complicated by the suspension of the Northern Ireland Assembly). All of these depend on the changing outlook for national income as the impact of Brexit is felt.

In England, MHCLG currently sees its revenue budget for housing stay much the same over the four-year period ending in 2019/10, but its capital budget will double. Most of the extra capital spending will go into Help to Buy, however. Local government spending will fall by one-third.

Another factor is that, across the UK, housing investment is boosted via the European



Investment Bank (EIB) and EU structural funds. EU structural funds benefit the devolved administrations, especially Wales, more than they do England. The EIB last year invested £1 billion in UK social housing projects. Housing Europe has published a [briefing](#) on the implications of Brexit, including a discussion of whether UK access to the EIB could be maintained. The LGA has called on the government to provide [an alternative funding source](#) if EIB money is no longer available. This is one of many issues on which decisions are still pending.

Could housing gain from reduced 'red tape'?

One of the main arguments for Brexit is that it means coping with less 'red tape'. This has downsides (see below), but there are upsides too:

- End of EU procurement rules. This could mean more freedom in the longer term but in the meantime the public sector will still have to comply with the Public Contracts Regulations 2015. If the UK negotiates new trade agreements or stays in the European Economic Area like Norway, it will still need similar procurement rules covering openness, fairness, transparency and non-discrimination. If the UK does get more freedom, changes to procurement rules might, for example, allow tenders to be restricted to British firms. Existing rules do, of course, already allow (and require) social value to be taken into account, as CIH has [already advised](#).
- End of EU state aid rules. These rules have affected the social housing sectors in Sweden, France and the Netherlands, and forced policy changes. So far this has not happened in the UK. However, the government has said that state aid rules will continue to apply after Brexit, in the same form as the EU rules.



- End of EU taxation rules. The UK could in theory change how VAT applies, for example it could create new zero-VAT categories, such as for home insulation or repair, which is something the housing lobby has regularly asked for in the past. No indication has yet been given of any VAT changes.
- End of EU employment law. Potentially, regulations such as the working-time directive and rules about disability and discrimination could change, but any changes will be controversial. Also, the UK will remain subject to the European Court of Human Rights and will retain its Human Rights Act, since these rights are administered separately from the EU and their protections will remain.
- End of compliance with EU statistics rules? The UK will cease to be a member of Eurostat, which collects EU statistics, but not necessarily of the European Statistical System which sets the rules on which national statistics are compiled. Even if we leave the ESS, the UK Statistics Authority is likely to continue to comply with international rules, such as those that decide how 'public bodies' are defined for accounting purposes. These rules have recently affected UK housing associations.

In the longer term, therefore, there may be changes and – depending what they are – some could be helpful to housing organisations. But any changes are not expected until 2021, at the earliest.

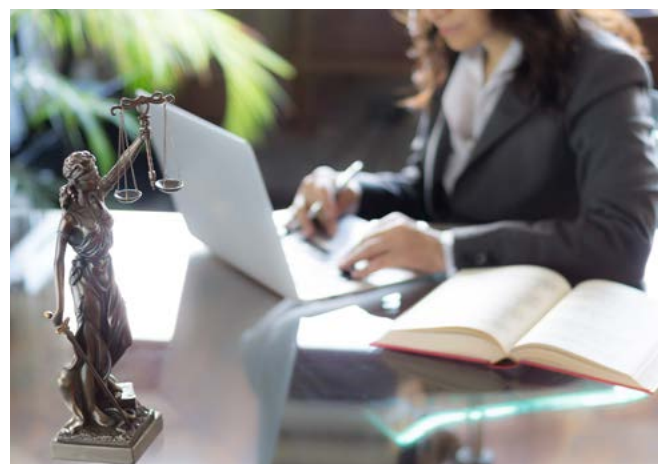
What about EU regulations that are still needed?

A huge range of regulations are set by the EU and will have to be administered within the UK in future: some 19,000 EU rules currently require 34 agencies to implement them. Big issues to be decided include the government's objectives for regulation, the agencies it will use, the rules themselves, how much they depart from EU rules, and mechanisms for reviewing them in the future. The UK may stay inside some EU bodies in order to avoid creating new ones.

Housing is affected by regulations to do with the environment, climate change, health and safety, construction materials and more. Taking rules on environment and climate change as an example:

- Material standards and energy consumption rules in making materials (for example, for construction) will be covered by a common 'rule book' between the UK and the EU. How will this be enforced and updated in practice?
- UK targets for reducing carbon emissions are already written into UK law, but will they be revised if the EU decides to toughen its requirements (e.g. to comply with the Paris Climate Agreement)?
- Who will ensure that the UK complies with new requirements? There is already an argument about whether the body that the government sets up to administer environmental standards will be advisory or will 'have teeth'.
- Revising regulations often depends on complex research, currently carried out by the EU. How will this be done in future?

Criticism of government proposals for environmental regulation [from the UN](#) have suggested that the government will not meet its promise to deliver a 'green' Brexit. Attempts in parliament to strengthen environmental regulation and ensure that similar standards to those of the EU are enforced in future, were defeated.





Brexit and the building and social care industries

How will leaving the EU affect the supply of building materials?

The UK will have a strong interest in staying in line with the EU standards on construction materials as almost two-thirds of such materials are imported from the EU, and the same proportion manufactured here is exported to the EU. A significant issue is the levels of tariffs that will apply to imports after Brexit, which depend on the nature of any trade agreement. Clearly, higher tariffs will raise construction costs which, of course, have already risen since 2016 because of the slide in the value of the pound.

In theory, the UK might try to use more British materials post-Brexit, perhaps enforced by limitations in contracts (if procurement rules change - see above). However, not all materials can be produced locally, for example 92% of softwood timber used in the UK is from the EU.

Of course, building materials are just one issue in the wider question of how Brexit will affect trade to and from the UK. The East of England European Partnership has issued a [briefing](#) on this for local authorities and others.

How will leaving the EU affect building industry labour?

The latest [official evidence](#) is that EU nationals account for about 7% of the UK's construction workforce. In [London](#), 28% of building industry workers are from the EU and the proportion of EU workers in building repair is even higher. However, the [HBF Workforce Census 2017](#) recorded 18% of the workforce being from EU countries; for London, the figure was 50%. There is already a shortage of building workers, in part caused by the weakness of the pound, as evidenced by the problems Southern Housing [says it has had](#) in maintaining its new build programme. The construction workforce is also aging, and compared with UK workers those from abroad are much younger.

If UK membership of the single market is ruled out, the flow of migrant workers looks uncertain. Given that there is already a massive skills shortage, labour supply problems look likely to get worse unless new rules allow for migrant workers in the sector. The problem is that building requires skills at all levels. The government is investing in construction apprenticeship schemes, intended to pay off in the long term, but 86% of construction employment is in small/medium businesses who may be ill-equipped to take on training responsibilities.

In the medium term the industry has to argue both for a construction-friendly post-Brexit immigration policy and to invest in greater and more effective off-site construction. Yet construction professionals have not so far been added to the UK's list of shortage occupations for migration purposes. Entry to the UK for lower or unskilled workers will depend on new rules which have yet to be published (see below), and one-third of non-UK building workers are general labourers. Employers have argued that current employee-sponsorship arrangements in other sectors would not work in the building industry where self-employment is much more prevalent than in other sectors.





How will leaving the EU affect social care?

There is already [a crisis in social care](#), likely to be made worse by Brexit, especially [in London](#) where 13% of care workers come from the EU. The King's Fund [points out](#) that the sector already has an estimated vacancy rate of 6.6% and overall turnover of 27.8%. About 7% of care staff nationally are EU citizens. Projections from the [Nuffield Trust](#) suggest a shortfall in England of as many as 70,000 social care workers by 2025 as a result of Brexit. Charities [have called for](#) an overall review of the impact of Brexit on social care, including not just staffing but funding of medical research and rights of disabled people. The care sector faces similar challenges to the construction sector if post-Brexit immigration policy favours high-skilled migrants (see below).

Brexit, migration and housing demand

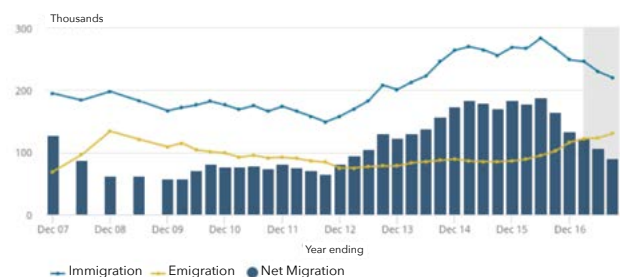
How does leaving the EU affect migration patterns?

The referendum result has already had an impact on migration patterns. Net migration of EU citizens fell by 75,000 over the last year, returning to the level seen in 2012. For the first time in recent years, it is less than non-EU migration. This may be a result of several factors, apart from response to the referendum result, e.g. the fall in the value of the pound (and therefore of someone's earnings here), uncertainty about the future status of EU citizens and perceptions about increased hostility towards migrants, for example higher levels of [hate crime](#).



However, there are still more EU citizens coming to the UK than leaving, as the chart shows.

Long-term migration to and from the EU



Source: Long-term International Migration, Office for National Statistics

Apart from new migration, there are nearly three million citizens of other EU countries already living in the UK (excluding those who already have UK citizenship). Some 70% have lived here for more than five years. It seems likely that all of those already here will be allowed to stay. But if significant numbers decide not to, it will create severe problems for the building and social care sectors, where many are employed.

Current residents can now apply for 'settled status' in the UK. Local authorities believe they need [extra resources](#) to help EU nationals through the process. The Migration Observatory reports on which groups of EU citizens [will have the most difficulty](#) proving their settled status - among these are very long-term residents, those without digital skills and those who incorrectly believe they are ineligible. Groups such as the up to 200,000 Roma people living in the UK [may have particular difficulties](#). And if EU nationals decide to apply for full UK citizenship, here are some of the [barriers they face](#).

How will leaving the EU affect demand for new housing?

If EU migration falls significantly, this could affect projected household growth and therefore future housing demand. Across the UK, in any one year, about half of new migrants are from other EU countries. In England, net migration (the difference between numbers coming in and going out) accounts for 37% of the projected growth in numbers of households over the next 25 years, and hence demand for



extra homes. In Wales, Scotland and Northern Ireland, in contrast, migration is projected to have little impact on household growth.

The current household projections were made before the referendum. The next set of projections, due in September 2018, will be based on 2016 population data but will still be an uncertain estimate of the effects of Brexit, particularly since post-Brexit immigration policy is not yet known.

How might immigration policy change, post-Brexit?

At the moment, the UK is obliged to follow 'free movement' rules which give workers and other categories of EU citizen the right to move across the EU and also to have access to benefits. Both main parties are committed to ending 'free movement', although it is still unclear whether some aspects of it will have to be retained, depending on the UK's future trading relationship with the EU, still unresolved. 'Free movement' will in any case continue until 2021.

The government is due to produce a white paper on future immigration policy later this year, following a report by the Migration Advisory Committee expected in September. Until then, any discussion is speculative. However, the government has indicated that it may look to focus policy on attracting high-skilled migrants, as it does for migrants coming from outside the EU, imposing income thresholds that deny entry to those with lower skills. According to [IPPR](#), 87% of social care workers would not meet current income thresholds. There is likely therefore to be considerable debate about shaping immigration policy to meet the needs of different sectors, including building and social care. Business has [called for](#) the government to recognise Britain's dependence on EU workers and to publish its policy urgently. Among regions already affected by a loss of EU workers, Northern Ireland [has recorded a fall of 26%](#) since the referendum.

How does demand from EU migrants affect social housing tenancies?

Most new EU migrants enter the private rented sector and, even if eligible for social housing, are unlikely to get a housing allocation until they have been in the UK for several years. Overall, 15.9% of EU migrants are in social housing compared with 17% for UK nationals. In terms of new social lettings each year, in England only 4% go to nationals from other EU countries (and in other parts of the UK it is likely to be far fewer). If new rules were to deny social tenancies to new EU migrants, the effect on demand would therefore be very small (although it would be greater in areas where more EU migrants currently live).

What about eligibility for housing and benefits?

The current rules on eligibility, based on 'free movement', are very complex, as can be seen by looking at the [CIH/BMENational housing rights website](#). They are not based solely on membership of the EU but of the [European Economic Area](#) (EEA), which includes non-EU countries like Norway and also extends to Switzerland. While nationals from these countries are generally able to enter the UK freely and, once resident, are eligible to apply for social housing, there are exceptions (such as job seekers).





The rules could become even more complex post-Brexit, if EU nationals living here before Brexit retain the same access to benefits and housing help as they do now, but new EU migrants have more restricted access. Already the rules are different for family members, and future rules could create further differences.

Various organisations are lobbying for simplified eligibility rules for migrants, post-Brexit, but it is not clear that this will be the outcome – and the complexity could easily get worse.

What about British nationals living elsewhere in the EU?

If negotiations do not protect the position of the 1.2 million UK nationals currently living in other EU countries, some of them may return, putting extra pressure on services here. Many may not at first be able to demonstrate they are [habitually resident](#) in the UK and will not be eligible for a housing allocation. If the government were to change the rules (e.g. in response to an influx of retired UK nationals) this might create considerable pressure on housing resources.

What about checking EU nationals' documents?

All applicants for social housing have to comply with the eligibility rules in the different UK administrations. In England, there are requirements to make 'right to rent' checks on the documents of those applying for lettings from private landlords (and from housing associations where they make their own allocations). At the moment, any citizen of the EU or the wider EEA is not covered by the 'right to rent' legislation and has an automatic right to rent regardless of their work or benefit status (however, a document check is needed for all applicants to ensure they are UK or other EU nationals). It is not yet clear if the present exemption for European nationals will continue, or if some or all will in future have to prove their 'right to rent'. If these checks are extended to Scotland, Wales or Northern Ireland at some point, the same will apply there.

What happens next and how should housing organisations respond?

Changes in the various rules discussed here are likely to take several years. This is because the political negotiations are still by no means complete, and then time will be needed to produce a range of new rules, for example on immigration. In the meantime, much will stay the same. For example, EU citizens will continue to be able to enter the UK and be eligible for benefits and to make a housing application or seek homelessness help, as they can now. Labour supply issues in the building and social care sectors will probably be affected as much by economic and personal factors as by potential changes in the rules. Whether in this interim period net migration from the EU will continue to fall is impossible to project, even more so the long-term effects on housing demand.

The housing sector can be most active in planning for shortages of construction labour and possibly of materials. Apprenticeship schemes, use of off-site construction methods and helping to lobby for favourable immigration rules for building industry workers are measures that should be considered.

Further information

Keep up to date with Brexit and housing on the [CIH Brexit page](#).

Learn about developments in the rules on housing and migration through the comprehensive information and guidance on the CIH/BMENational [housing rights website](#).

Find out when document checks are necessary from our [what you need to know](#) about housing associations and the right to rent.

Read the CaCHE briefing on [Brexit and Housing](#).